

# A Look at the Economy as we Approach 2011

Presented to  
Pacific Northwest Purchasing Conference

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October 1, 2010  
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## Summary

- The economic outlook has weakened since the spring
  - Downward revisions to historical data means we are starting from a lower point
  - The economic recovery entered a "soft patch" in the second quarter and the national outlook is now considerably weaker
- Economic activity is "muddling along" and the recovery is expected to be painfully slow
  - Weak confidence
  - Weak housing, commercial construction
  - Slow job growth
  - Improving, but still tight credit for small business
- Double-dip unlikely, but possibility higher

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## The worst recession since WW II ended in June 2009

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
<b>Average</b>	<b>1.8</b>	<b>2.6</b>	<b>10</b>
<b>2007-09</b>	<b>4.1</b>	<b>6.1</b>	<b>18</b>

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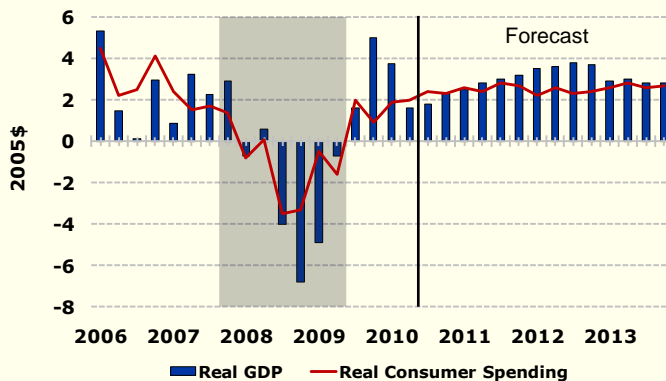
Source: NBER, ERFC

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## GDP growth took off in 2009Q4 and 2010Q1 but then slowed

Percent growth, SAAR



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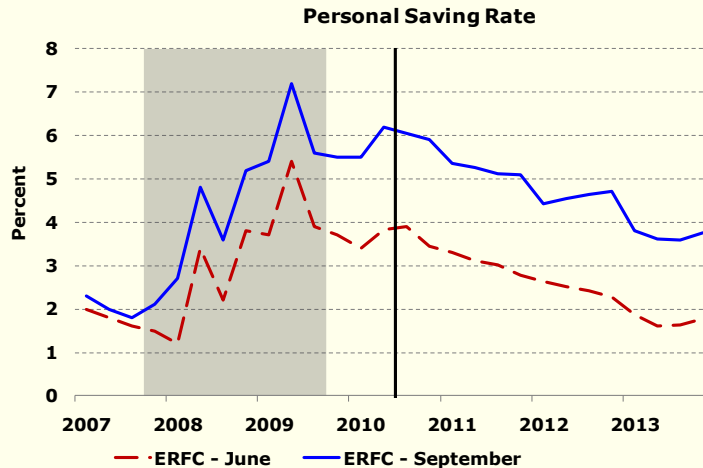
Source: BEA, data through 2010 Q2, ERFC forecast through 2013Q4

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## The historical savings rate was revised up sharply in August

The saving rate for 2010Q1 was revised from 3.1% of disposable income to 5.5%.



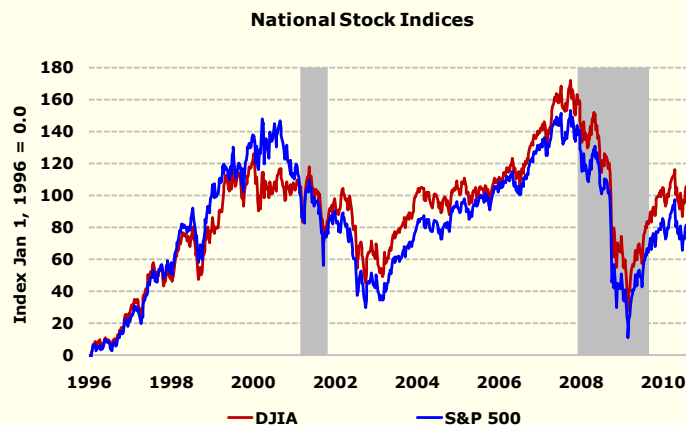
Source: ERFC September 2010 forecast; actual through 2010 Q2

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## Equity markets are indicating a slowing of growth...



Source: Yahoo! Finance; data through September 24, 2010

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... as are bond markets



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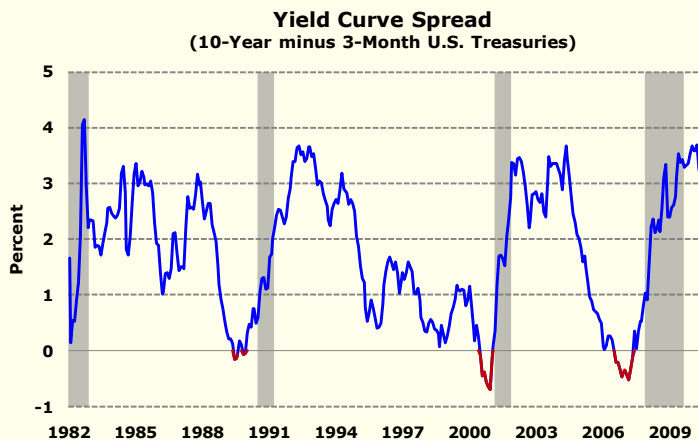
Source: Federal Reserve; data through September 28, 2010

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The yield curve has flattened,  
but is not signaling a double dip

An inverted  
yield curve  
typically  
precedes a  
recession  
while a  
steepening  
yield curve  
signifies a  
recovery



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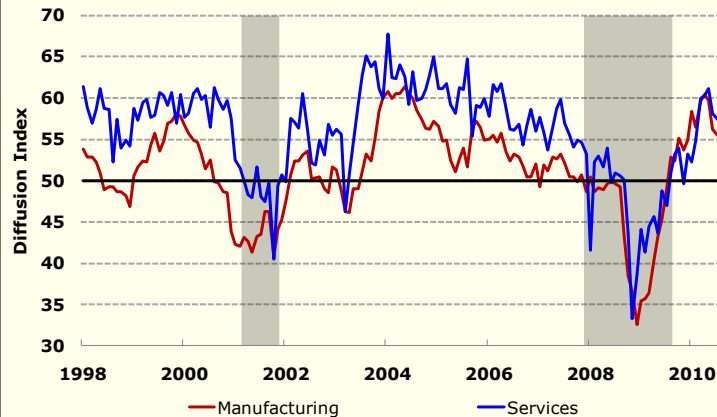
Source: Federal Reserve Board, ERFC; data through September 2010

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## ISM indices for both services and manufacturing indicate moderating growth

An index greater than 50, implies growth



Source: Institute of Supply Management; data through August 2010

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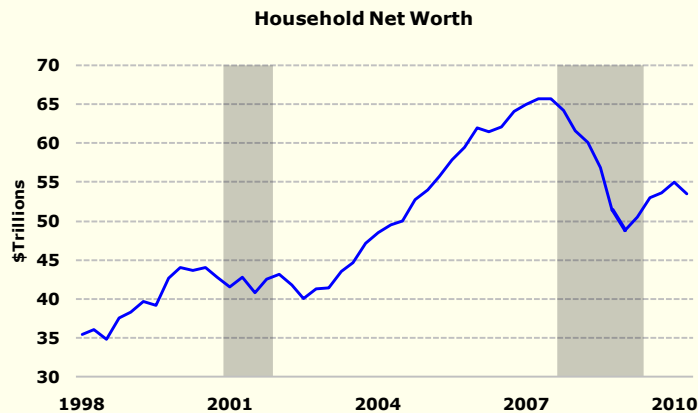
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## Recovery in household net worth stalled in 2010Q2

\$18 trillion of wealth was lost in this recession

\$6 trillion has been recovered so far



Source: Federal Reserve; data through 2010 Q2

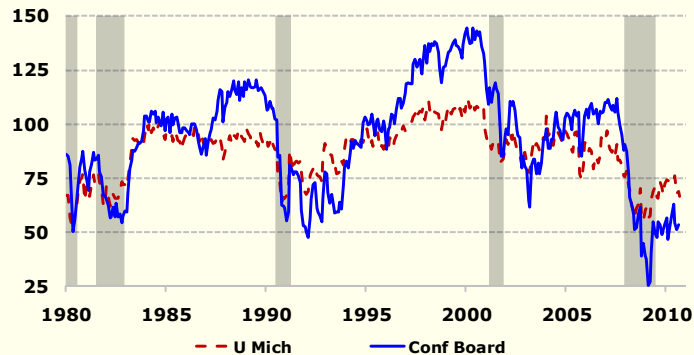
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## Consumer confidence remains uncertain

Index  
Mich: 1966Q1 = 100, SA  
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through September 2010

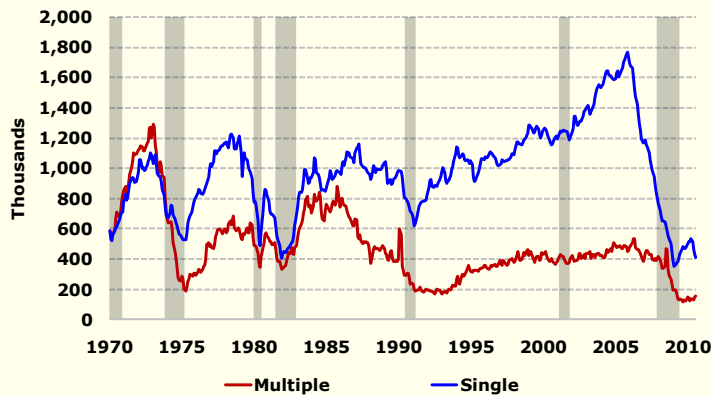
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## Building permits grew briefly from federal tax credits but remain low

Housing Units Authorized by Building Permits, 3MMA, SAAR



Source: US Census Bureau; data through August 2010

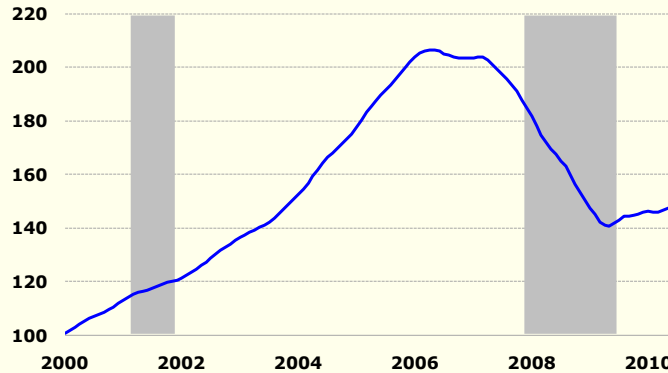
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## Home prices are recovering but could slip again due to expiring tax credits

**Case-Schiller 20-City Composite Home Price Index**  
(January 2000 = 100)



Source: Standard and Poor's; monthly data through July 2010

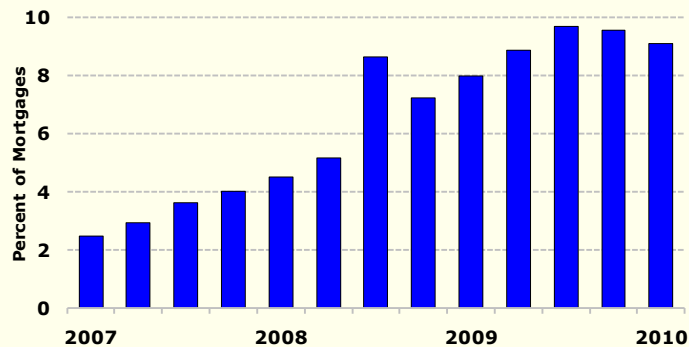
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## The percentage of seriously delinquent mortgages is stabilizing

**Seriously Delinquent Loans (90+ days)**



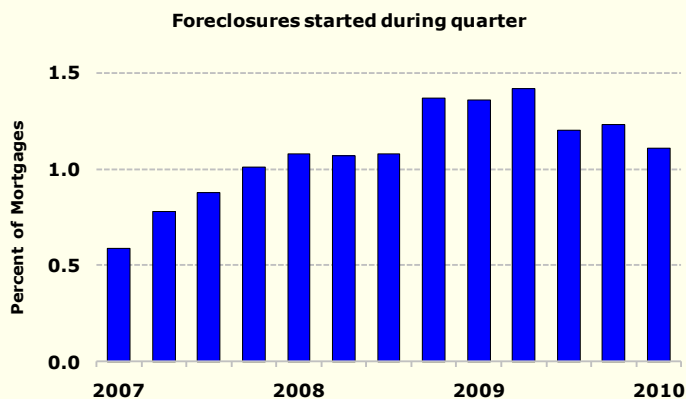
Source: Mortgage Bankers Association® National Delinquency Survey, data through 2010 Q2

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## Foreclosure starts are decreasing



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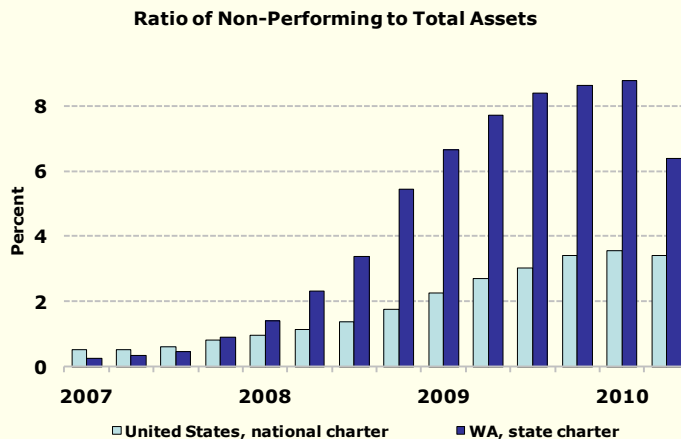
Source: Mortgage Bankers Association® National Delinquency Survey, data through 2010 Q2

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## Asset quality of banks is improving

The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate



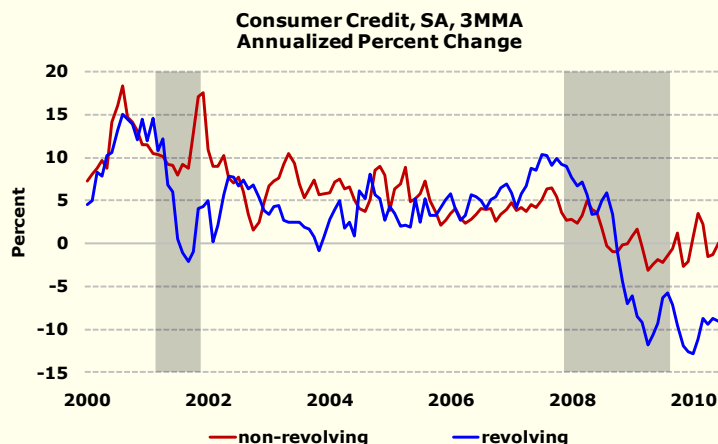
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Source: FDIC, data through 2010 Q2

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## Credit card debt is declining due to defaults, lower spending and payoffs



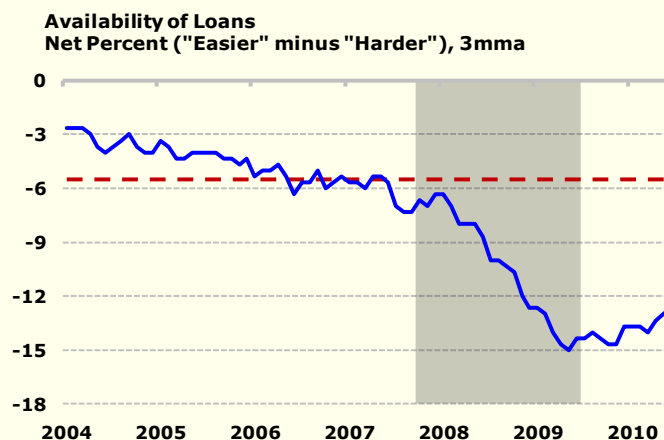
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Source: Federal Reserve; data through June 2010

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## Credit conditions for small business are improving, but remain tight



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Source: National Federation of Independent Business; data through August 2010

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## Corporate profits are back up above pre-recession levels

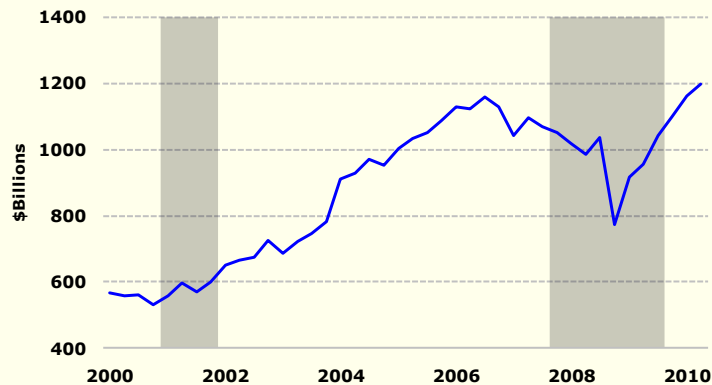
IVA:  
Inventory  
valuation  
adjustment

CCA:  
Capital  
consumption  
Adjustment

With IVA &  
CCA, implies  
profits from  
current  
production

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After Tax Corporate Profits, with IVA and CCA



Source: BEA; data through 2010 Q2

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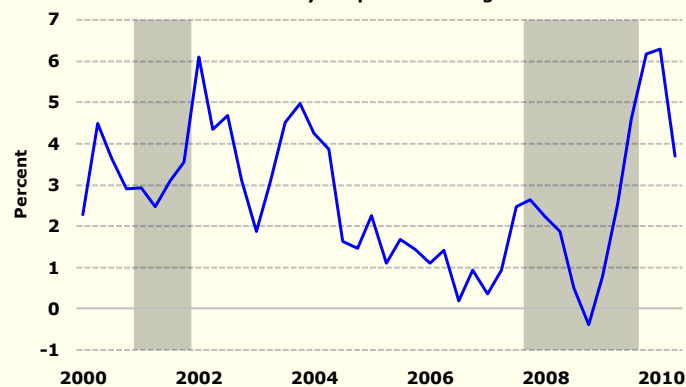


## Productivity gains are slowing

This  
indicates  
the  
possibility of  
higher  
employment  
growth as  
demand  
strengthens

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Non-farm Productivity  
Year-over-year percent change

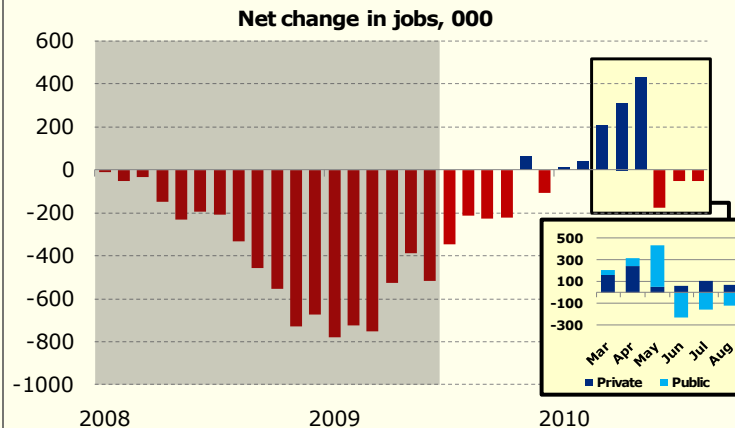


Source: US Bureau of Economic Analysis; data through 2010 Q2

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## Temporary Census jobs obscured private job growth, which has slowed



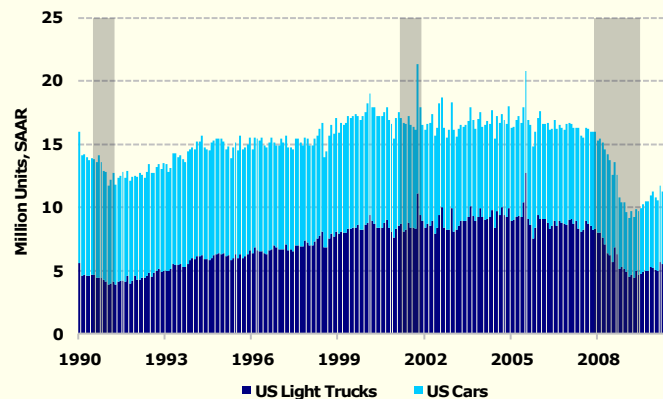
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## Automotive sales are treading water, after recovering from trough

**Cash for  
Clunkers  
effect  
removed**



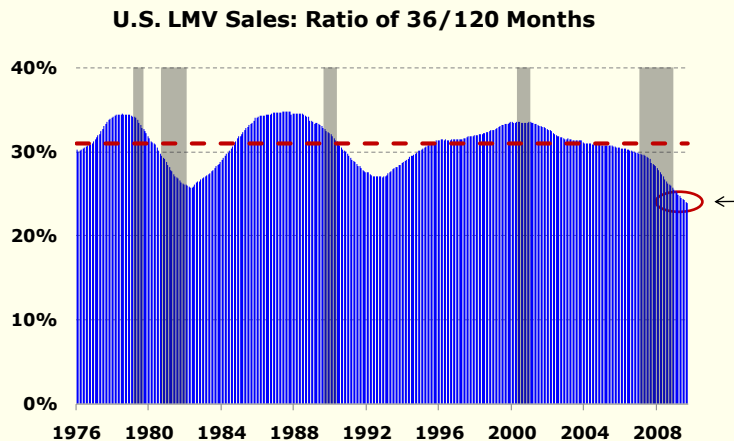
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## Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

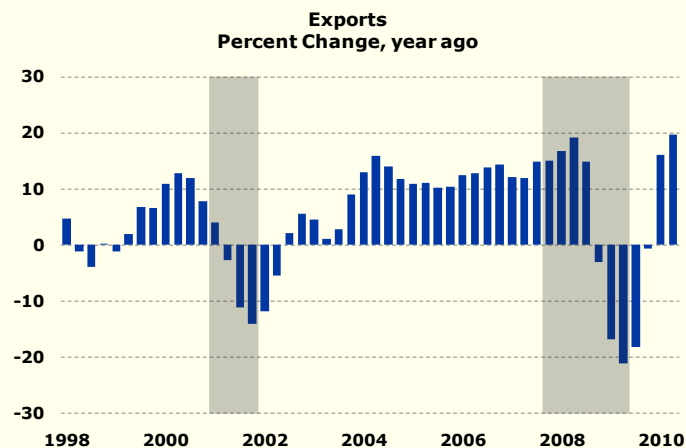


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## Global economic recovery is boosting exports



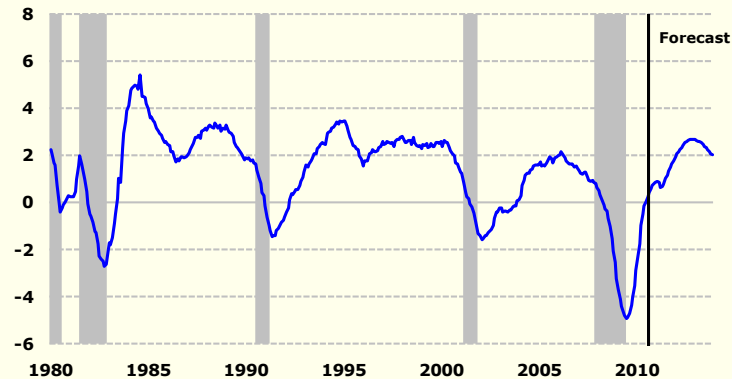
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## US employment is forecast to grow moderately through 2011

Percent change, year ago



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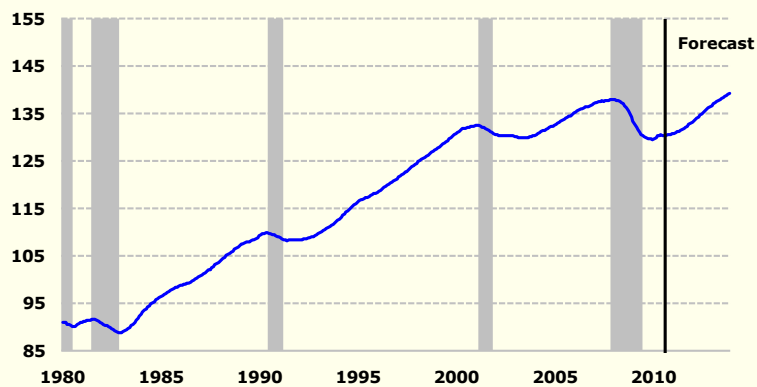
Source: ERFC September 2010 forecast; actual through August 2010

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## Employment will not reach its pre-recession peak until mid-2013

Employment, millions



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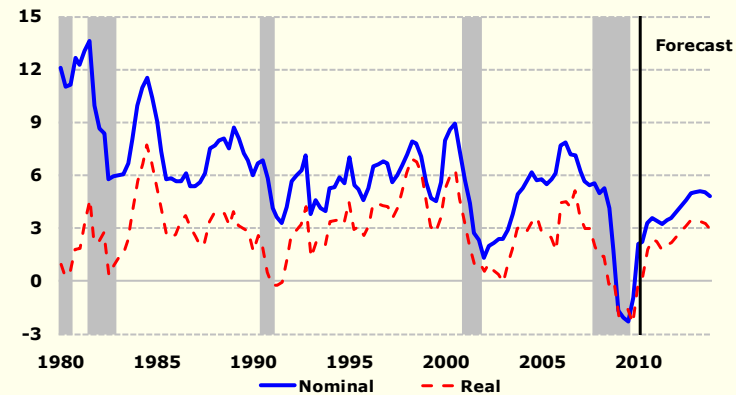
Source: ERFC September 2010 forecast; actual through August 2010

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## Personal income growth is also expected to be modest through 2011

Percent change, year ago



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Source: ERFC September 2010 forecast; actual data through 2010Q2

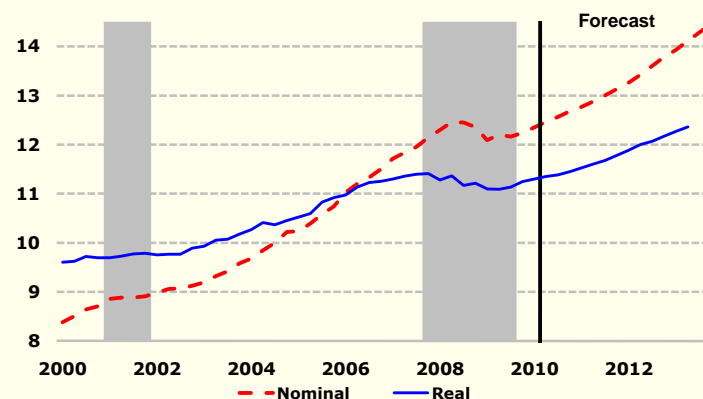
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## Real personal income won't exceed pre-recession peak until 2011Q2

Nominal personal income exceeded its pre-recession peak in 2010Q2

\$Trillions



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Source: ERFC September 2010 forecast; actual data through 2010Q2

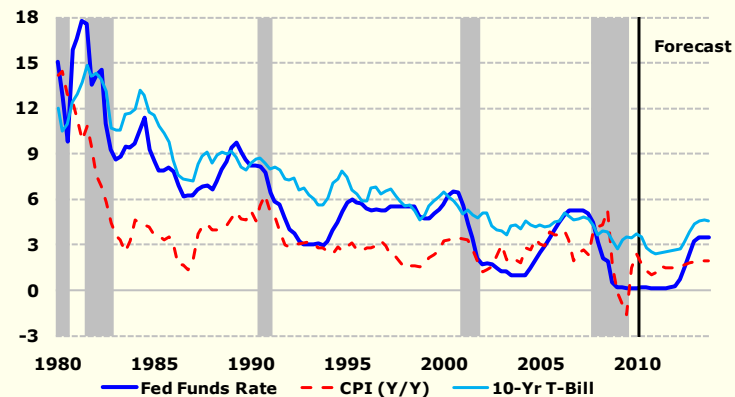
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## Interest rates and inflation will remain low for some time

The Federal Reserve is not expected to raise interest rates until mid-2012

Percent change, year ago



Source: ERFC September 2010 forecast; actual data through 2010Q2

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## Conclusion

- The economic recovery is going to be a slow painful slog, and it is difficult to see what is likely to cause growth to accelerate
- Inflation and interest rates will remain low for some time
- There is considerable downside risk and uncertainty in our forecast.

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# Questions

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